Written Testimony of

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INTRODUCTION

Gary Asay is a farmer from Osco, Ill. Along with his wife, he runs Asay Farms, which consists of 300 acres split between corn and soybeans. He also raises about 9,000 hogs a year for Cargill and is licensed to sell crop insurance and Livestock Gross Margin insurance.

He serves on the board of directors of the National Pork Producers Council, which is an association of 43 state pork producer organizations and is the voice in Washington for the nation's 67,000 pork producers.

Like all pork producers, in the next Farm Bill Asay would like to see provisions that help him maintain and strengthen his competitiveness vis-a-vis foreign competitors; he does not want in the bill unwarranted and costly provisions and regulations that will make it harder for him to compete in the global marketplace.

THE NEXT FARM BILL

There are several issues pork producers believes Congress should address in the next Farm Bill that could help the U.S. pork industry and farmers like him.

1. Enhancing programs that keep feed grain prices competitive with the rest of the world would be very beneficial. Feed comprises 60-70 percent of my input cost of producing a market hog. (Each market pig consumes approximately 10.5 bushels of corn and 200 pounds of soybean meal – that's about 4 bushels of soybeans.) But the rapid development of the corn-based ethanol industry, together with other factors, is threatening the U.S. pork industry's competitiveness and the survivability of producers like me. The markets have rationalized demand for corn over time, but the potential for short-term dramatic price swings, as well as localized feed shortages, has jeopardized the industry's competitiveness and reliability as a domestic food supplier and as an exporter.

   Following passage of the Energy Independence and Security Act (EISA) of 2007, which included a Renewable Fuels Standard (RFS II) that quickly accelerated the mandated production of corn ethanol, pork producers struggled to adjust to rapidly escalating prices and increased volatility in grain markets. This resulted in a reduction in hog production. Congress allowed the long-standing tax subsidies for corn ethanol to expire at the end of last year Bt the ethanol industry continues to seek further government support for expanding ethanol markets, calling for the blend rate to be increased from 10 to 15 percent ethanol in motor vehicle fuels, subsidies to finance construction of ethanol pipelines and other infrastructure and adjustments to the RFS II that would allow corn ethanol to qualify as an advanced biofuel and expand its production mandate.

The debate over federal renewable fuels policy has been playing out over continuingly increasing pressure on domestic and worldwide grain reserves. The 2011 crop, affected by weather conditions in various parts of the Corn Belt, including the loss of significant acreage because of flooding, delayed planting because of wet conditions, drought and excessively hot summer temperatures, came in below initial expectations, with corn reserves at times during the year reaching record lows. That caused tremendous volatility in grain markets, prompted speculative buying and increased the risk of localized corn shortages. Projections for the 2012 crop year show little improvement in total corn reserve carry over, enhancing the financial risk faced by pork producers, who must compete against subsidized users of corn for increasingly difficult to obtain supplies of corn.

Pork producers have asked Congress and the Obama administration to consider a variety of responses, including reactivating the Inter-departmental Livestock Task Force to help identify policies to avert a feed-related crisis in the livestock industry, reforming the Conservation Reserve Program to put more land in production and to allow the penalty-free early release of the least environmentally sensitive acres in the event of a feed crisis and making available to producers all USDA and federal emergency programs and loan guarantees to help them purchase feed should they encounter regional grain shortages. Additionally, the U.S. pork producers support H.R. 3097, the Renewable Fuel Standard Flexibility Act, which creates a safety valve that makes short-term adjustments to the RFS in the event of a grain crisis to ensure adequate supplies of feed is available for producers.

Research and development also are needed to find other energy alternatives, such as using animal manure and fat and biomass, including switchgrass and corn stover. Pork producers want to emphasis the right balance is needed to meet the needs of fuel *and* feed security.

2. Developing a world-class disease surveillance system is vital to the continued viability of the U.S. pork industry. The outbreak of H1N1 in 2009 demonstrated the interrelationship of human and animal health when combating new and emerging diseases. From that experience, the U.S. pork industry learned that a more Comprehensive and Integrated Surveillance System (CISS) is needed to ensure the capture of data about a broader range of diseases. The industry began working collaboratively with USDA's Animal and Plant Health Inspection Service (APHIS) and the Centers for Disease Control and Prevention (CDC) to develop a CISS. CDC supports the CISS, and APHIS's Veterinary Services (VS) program has embraced this concept and included comprehensive surveillance as a major objective in its strategic plan, VS-2015. Completion of CISS is critical to maintaining the pork industry's disease-free status, which is critical to maintaining and expanding our exports.

   Disease surveillance is the foundation of disease prevention and preparedness. The threat of new and emerging diseases continues to grow, with scientists continually warning the public and animal health authorities about prevention and preparedness. One of the more grim aspects of these warnings is that many of these diseases are zoonotic and are originating in wildlife and domestic animals. The CISS is designed to provide an "early warning system" and to allow for development of response plans in advance of an epidemic. The U.S. pork industry currently is collaborating with APHIS on a pilot project to test implementation of a CISS and to determine how it can be connected to an animal traceability system. Currently, the most significant shortcoming is funds to build the infrastructure to accommodate a more robust system of surveillance. In 2009, the emergency supplemental appropriation, which made funds available to CDC for managing the H1N1 crisis, also provided \$25 million to APHIS/VS for swine influenza surveillance. Of that amount, approximately \$17 million remains unused, money that could be used to support a surveillance system covering new and emerging diseases would also support the infrastructure for CISS. Although the pork industry has been working cooperatively with APHIS/VS and the agency has committed to developing a CISS, the President's USDA budget for fiscal 2013 inexplicably proposed a reduction of \$2.6 million for swine disease surveillance. The justification for the decrease is inconsistent with USDA's commitment and the requirements for implementing a CISS. The ability to expand surveillance to include other diseases will increase exports. Reducing surveillance provides other countries the justification to restrict U.S. exports because of inadequate surveillance data.

U.S. pork producers also support USDA's animal traceability system. An effective traceability system is critical to the national animal health infrastructure and is required for certification by the World Organization for Animal Health (OIE). The ability to quickly trace diseased and exposed animals during a foreign animal disease outbreak would save millions of animals, lessen the financial burden on the industry and save the American taxpayer millions of dollars. With support from all sectors of the pork industry, approximately 95 percent of pork producer's premises already are registered under the USDA livestock identification program. Premises identification is the key to meeting a goal of tracing an animal back to its farm of origin within 48 hours, which would allow animal health officials to more quickly identify, control and eradicate a disease, to prevent the spread of a disease or to make certifications to our trading partners about diseases in the United States.

3. Expanding markets to U.S. pork products increases producers' bottom line and contributes significantly to the U.S. economy, prompting job growth and increasing the U.S. gross domestic product. Pork represents 44 percent of global

meat protein intake, far more than beef and poultry, and world pork trade has grown significantly in the past several years. The extent of this increase in global pork trade in the future will hinge heavily on continued efforts to increase agricultural trade liberalization.

The U.S. pork industry exported in 2011 more than $6 billion of product, which supported more than 50,000 jobs. And the trade agreements with Colombia, Panama and South Korea approved last fall, when fully implemented, will boost U.S. pork exports to those countries by a combined $772 million, add $11 to the price producers receive for each hog marketed and generate more than 10,000 U.S. pork industry jobs. It is estimated that U.S. pork prices were $55 per hog higher in 2011 than they would have been in the absence of exports.

It is important to emphasize the need to strengthen the ability of U.S. agriculture to compete in the global marketplace. But the downside of growing exports is, of course, the larger economic impact on producers and the U.S. economy should there be any disruption in trade. Pork producers understand this dynamic and recognize that it would be devastating for the U.S pork sector.

4. Protecting producers against disruptions in trade is paramount. Produces like Asay need better risk-management tools to protect their operations should exports markets ever be interrupted by a serious animal disease outbreak in this country.

Such tools are needed now, more than ever. Outbreaks of devastating foreign animal diseases such as foot and mouth, classical swine fever and African swine fever are increasing around the world. The increased presences of disease, along with increasing international travel and trade that move diseases around the world, have created an unprecedented risk to the U.S. pork industry.

According to a recent study, revenue for the combined beef and pork industries would fall by billions of dollars annually as a result of a foreign animal disease outbreak. The recent free trade agreements with Colombia, Panama and South

Korea as well as economic growth in China will lead to continued pork export expansion. But if these export markets are lost and livestock producers are forced to bear the resulting financial harm, there will be thousands of bankruptcies in rural America. Further, USDA is expected to change its traditional approach to dealing with foreign animal diseases from "stamping out" to one that includes vaccinating and, potentially, living with diseases for an undetermined time.

There is a simple solution to the elevated risk in livestock production. USDA has been running a pilot insurance program for hog producers called Livestock Gross Margin (LGM). The program is designed to protect hog producers from systemic risk much as crop insurance programs do for crop producers. The program now is ready for primetime and should be allowed to take on this role. To structure the program to provide inexpensive, catastrophic coverage, Congress would need to remove the $3 million cap on swine insurance.

The $3 million limit on spending has caused USDA to severely restrict the number of head that any one producer can insure. In fact, last year just 205,883 hogs were covered; in 2010, only 263,454 hogs were covered. With the U.S. pork industry marketing more than 110 million hogs a year, it is clear that the current LGM program has little benefit to pork producers.

The limit on coverage – Congress capped the program for all species at $20 million ($16 million is used by the dairy industry), and USDA set a coverage limit of 30,000 head – is a new development for USDA's Risk Management Agency (RMA) because there is no upper limit on the number of crop acres that can be insured under other RMA policies. There is nothing in the Federal Crop Insurance Act that allows RMA to engage in social engineering of this type. In fact, the Agriculture Risk Protection Act of 2000 states the following:

- **Eligible producers:**

  Any producer of a type of livestock covered by a pilot program under this subsection that owns or operates a farm or ranch in a county selected as a location for that pilot program shall be eligible to participate in that pilot program.

The limit on the insurable livestock farm size is unfortunate for two reasons. First, the livestock industry is evolving toward larger production units, and these larger units are essentially prohibited from using the product as a catastrophic policy to cover their output in excess of the numerical limits. Second, the existence of a limit is divisive, potentially pitting smaller units against larger ones.

Additionally, LGM for swine now is available only for a six-month period. This is not enough coverage to protect against drought or to downsize an operation. This is easily fixed, and a policy that insures for one year is feasible. This policy would roll over every month so producers always have one year of insurance coverage.

The owners of LGM have indicated that they are willing to make the changes described above if the $3 million limit is eliminated and the policy is allowed to move beyond pilot status.

Finally, companies and agents selling LGM are reimbursed based on the premium paid by the producer rather than on the number of policies. Total administration and operation (A&O) reimbursement for companies and agents is set at 22.2 percent of the producer premium. This means that a catastrophic policy that sells at $1 per hog for 500 hogs would have a total A&O of $111. This A&O needs to be split to cover the company's costs and the agent's costs. A typical reimbursement for selling a crop insurance policy is from $500 to $700. This percentage-based A&O policy for livestock makes it economically infeasible for the agent to sell catastrophic policies or to sell to smaller producers. One easy remedy is to allow the agent to choose between reimbursement based on a percent of the premium or a fixed per-contract amount.

Today, because of the growth in exports of U.S. pork products and the increased chances of a foreign animal disease outbreak, the potential for a catastrophic drop in hog prices is greater than ever. And the stakes for the U.S. economy, which garners $35 billion annually in gross domestic product and 550,000 jobs from the U.S. pork industry, also are great.

The U.S. pork industry has done much to protect itself, including increased biosecurity on farms, implementation of a national swine identification program and calls for a comprehensive disease surveillance system, but it needs more. Pork producers encourage Congress to urge USDA to develop a catastrophic insurance product that is more in keeping with today's swine industry needs.

5. Protecting the environment is a top priority of the U.S. pork industry. Pork producers are committed to running productive pork operations while protecting the environment and exceeding environmental regulations. Pork producers have fought hard for science-based, affordable and effective regulatory policies that meet the goals of today's environmental statues. For producers to meet these costly demands while maintaining production, they believe that the federal government must provide through conservation programs of the Farm Bill, such as the Environmental Quality Incentives Program (EQIP), cost-share support to help them defray some of the costs of compliance.

   The EQIP program has not provided pork producers with enough support to meet all the challenges we face related to conservation and the environment. Producers like Asay, who has used the program, would like to see the scope of projects covered by the program widened.

   Pork producers take a broad view of what it means to be environmentally responsible farmers and business people, and they have embraced the fact that their pork processing operations must protect and conserve the environment and the resources they use and affect. They take this responsibility with the utmost seriousness and commitment, and it is in that spirit that producers would make major contributions to improving their practices through a Conservation Title of the Farm Bill.

Investing in research also is critical to the U.S. pork industry. Producers rely on it for improving swine genetics, testing and deploying new and improved animal vaccines, improving the usefulness of energy production by-products such as distillers dried grains and for further increasing animal productivity. Research also can assist in monitoring diseases and preventing a disease outbreak.

6. Dictating how the U.S. pork industry buys, sells and raises its animals would severely cripple the competitiveness of pork producers. Mandates – whether pushed by lawmakers or activists – must not stand in the way of market-based demands. Producers understand that the issue of banning packer ownership of livestock or eliminating forward contracting continues to be discussed. However, they do not believe that the U.S. pork industry will be well served by having Congress eliminate certain types of contracting mechanisms. This only forces the livestock markets to revert to an inefficient system used more than half a century ago in which livestock were traded in small lots and at prices determined in an open-market bid system. This system was inefficient and makes no economic sense in today's economy. Today, the U.S. pork industry has developed a wide variety of marketing and pricing methods, including contracts, to meet the changing needs of a diverse marketplace.

   Economics should determine the structure of pork production and processing, including the ownership of both. No economic research ever has shown that either the structure or marketing practices of the industry have harmed producers or consumers. Until such research exists, Congress should not impose limitations on packer ownership of production, producer ownership of packing or marketing contracts.

   Likewise, federal mandates on production practices, including ones that would dictate animal housing systems, would add to producers' costs and weaken the U.S. pork industry's competitiveness vis-a-vis foreign competitors. It is for those reasons that producers oppose the "Egg Products Inspection Act Amendments" (H.R. 3798), which would dictate the size of cages for laying hens.

The bill would amend a federal food-safety law. If provisions of that law are imposed on imported products, they must meet the World Trade Organization's equivalency principle, which requires governments to recognize other countries' science-based measures as acceptable even if they are different from their own, so long as an equivalent level of protection is provided.

But proponents of H.R. 3798 have admitted that the standards in this bill are arbitrary and were part of a negotiated settlement between an industry group and an animal activist group; they are not based on science that protects and improves food safety and public health. If imposed on imported products (eggs, in this case), they would not meet the WTO's equivalence principle.

The U.S. pork industry has no doubt that activist groups and special interest groups will be watching this Farm Bill debate and will attempt to push their particular agendas, which would add regulations to our business practices. Lawmakers must be cautious about allowing these issues to be added to the 2012 Farm Bill – a piece of legislation that has been aimed for the past 65 years at maintaining the competitiveness of the U.S. agriculture and livestock sectors.

The U.S. pork industry has developed and implemented strict standards for animal care and judicious use guidelines for use of animal drugs. These standards and guidelines are now part of the industry's pork quality assurance and transport quality assurance programs. These require producers and handlers to be trained and certified to care and transport our animals with the utmost care and concern. Pork producers do not believe that Congress should legislate on these issues as part of the 2012 Farm Bill.

Congress should craft a Farm Bill that helps farmers like Gary Asay remain competitive in the domestic and world markets.

Committee on Agriculture
U.S. House of Representatives
Information Required From Nongovernmental Witnesses

House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Gary Asay

2. Organization you represent: ______

3. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:

   Owner-operator Asay Farms. Raise about 9,000 hogs annually for Cargill. Farm 300 acres of corn and soybeans.

4. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:

   National Pork Producers Council Board of Directors, Henry County (Ill.) Farm Bureau, Illinois Farm Bureau, Illinois Corn Growers Association.

5. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold: ______

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2009.

Name: Gary Asay

Organization you represent (if any): ______

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2009, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: ______ Amount: ______

Source: ______ Amount: ______

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2009, as well as the source and the amount of each grant or contract:

Source: ______ Amount: ______

Source: ______ Amount: ______

Please check here if this form is NOT applicable to you: ______

Signature: Gary Asay

* Rule XI, clause 2(g)(5) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.